

VILLAGE OF CASS CITY

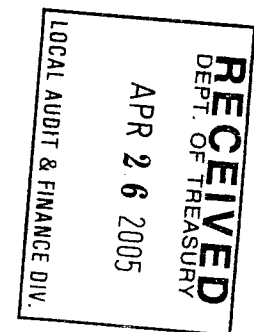
Cass City, Michigan

Annual Financial Statements

and

Auditors' Report

December 31, 2004



AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Cass City	County Tuscola
Audit Date 12/31/04	Opinion Date 2/22/05	Date Accountant Report Submitted to State: 04/25/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>


Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.			
Street Address 3149 Main Street, Plaza #4	City Marlette	State MI	ZIP 48453
Accountant Signature 			

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VILLAGE OF CASS CITY
List of Elected and Appointed Officials
December 31, 2004

VILLAGE COUNCIL

LAMBERT E. ALTHAVER

PRESIDENT

DAWN HOLLIS

PRESIDENT PRO-TEM

DONALD RICHARDS

TRUSTEE

JEFF GILLIG

TRUSTEE

DWIGHT D. THABET

TRUSTEE

JENNY ZAWILINSKI

TRUSTEE

JON K. ZDROJEWSKI

TRUSTEE

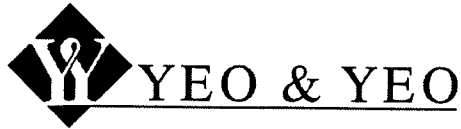
ADMINISTRATION

FRANCIS D. SHERIDAN

VILLAGE MANAGER

NANETTE WALSH

VILLAGE CLERK/TREASURER



3149 Main Street, Suite Plaza #4
Marlette, MI 48453
Phone (989) 635-7518
Fax (989) 635-3226

Independent Auditors' Report

To the Village Manager
and Members of the Village Council
Village of Cass City
Cass City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Cass City as of and for the year ended December 31, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Cass City as of December 31, 2004 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Village has implemented a new reporting model as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, as of January 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2005 on our consideration of the Village of Cass City internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Cass City's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Marlette, Michigan
February 22, 2005

MANAGEMENT DISCUSSION AND ANALYSIS

Village of Cass City
Management's Discussion and Analysis
Year Ended December 31, 2004

Our discussion and analysis of the Village of Cass City's financial performance provides an overview of the Village's financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the Village's financial statements.

FINANCIAL HIGHLIGHTS

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2004.

Total net assets related to the Village's governmental activities are \$2,742,953. The unrestricted portions of net assets are \$742,337 (see table 1).

Tax revenues, the Village's largest revenue source, increased by \$52,159 from 2003. This is representative of new construction that the Village experienced in the prior year. Without new development, the Village will be faced with declining tax revenue, a direct result of Proposal A, which is a major concern to the Village.

State shared revenues, our second largest revenue source, was reduced by about \$28,064 by the State of Michigan this year. In light of continuing State Budget Problems, and constant threat to take away all revenue sharing, the Village has reacted by invoking tighter controls over all expenditures. The Village was fortunate, this fiscal year, to experience an increase in tax revenues to counteract the decrease in revenue sharing. This may not be true for upcoming years.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village of Cass City as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether

the taxpayers have funded the full cost of providing governmental services.

The fund financial statements present a short-term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds.

THE VILLAGE OF CASS CITY AS A WHOLE

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

Table 1

	Governmental Activities 2004	Business-type Activities 2004	Total 2004
Current assets	\$ 2,985,625	\$ 3,346,594	\$ 6,332,219
Current and long term liabilities	<u>242,672</u>	<u>382,774</u>	<u>625,446</u>
Total net assets	<u>\$ 2,742,953</u>	<u>\$ 2,963,820</u>	<u>\$ 5,706,773</u>

Village of Cass City net assets of governmental activities are \$2,742,953 and \$2,963,820 for business type activities; of these amounts \$742,337 (governmental) and \$96,415 (business-type) are unrestricted assets.

Village of Cass City
Management's Discussion and Analysis
Year Ended December 31, 2004

Table 2

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue			
Charges for services	\$ 216,561	\$ 753,125	\$ 969,686
Capital grants and contributions	11,441	-	11,441
General revenue:			
Property taxes	1,011,719		1,011,719
State-shared revenue	561,098	-	561,098
Interest	21,444	608	22,052
Franchise fees and other revenue	76,210	2,726	78,936
Total revenue	<u>1,898,473</u>	<u>756,459</u>	<u>2,654,932</u>
Program expenses			
General government	435,341	-	435,341
Public safety	382,692	-	382,692
Public works	561,528	-	561,528
Recreation and culture	250,409	-	250,409
Interest on long-term debt	6,532	-	6,532
Water and sewer		854,766	854,766
Other	30,770	-	30,770
Depreciation	181,805	-	181,805
Total program expenses	<u>1,849,077</u>	<u>854,766</u>	<u>2,703,843</u>

GOVERNMENTAL ACTIVITIES

The Village of Cass City's total governmental activity revenues were \$1,898,473. There was a slight decrease in State-shared revenue, which has been offset with an increase in property taxes.

Governmental activity expenditures of \$1,849,077 were recorded for the year. This included increases in health care costs and property and

liability insurance rates. To offset these increases in cost, the Village closely monitored its spending in all other areas.

BUSINESS TYPE ACTIVITIES

The Village of Cass City business-type activity consists of Water Fund, and Sewer Fund.

The Village provides treated water to the Village residents. Raw water is pumped from three Village owned wells. The Village also provides water to four Elkland Township customers.

The Village also provides municipal sanitary sewer to its residents.

The Village will increase water rates in fiscal year 2005 to begin work toward compliance with new Environmental Protection Agency (EPA) Arsenic Rules that take effect January 26, 2006. The Village will enter into an Administrative Consent Order with the Michigan Department of Environmental Quality that will allow the Village to have two years to comply with the new Arsenic Rules.

VILLAGE OF CASS CITY FUNDS

The fund financial statements provide detailed information about the most significant funds, not the Village of Cass City as a whole. The Village Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51, Major and Local Street funds for 2004. The Cass City Village governmental major funds include General Fund, Major Street Fund, and Local Street Fund.

a) **General Fund**

Functions relating to the general governmental activities of the Village, which are financed by property tax levies, by distribution of State revenues, and from fees charged for various municipal

Village of Cass City
Management's Discussion and Analysis
Year Ended December 31, 2004

\$3,649 over 2003.

b) Major and Local Street Funds

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the Village's street system. The State requires that these expenditures be segregated into a Major Street component and a Local Street component. The Village uses these funds for improvements to the Village street system, along with contributions from General Fund. The fund balances in Major and Local Streets increased by \$72,246 in 2004.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Village Council and Village administration monitor and amend the budget to account for unanticipated events during the year. The most significant change was a decrease in State shared revenue, additional unfunded mandates, and increased benefit costs. Prudent budgeting and continued monitoring of all expenditures reduced the effect of these issues.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2004 the Village of Cass City has \$7,797,677 invested in a wide range of capital assets, including land, buildings, equipment, computer equipment, and water and sewer lines. The value of the governmental infrastructure assets, net of depreciation contained in this report, is \$1,696,287 at the end of 2004.

Debt reported in these financial statements is related to the installation of a new well constructed early in 1998. The Village also has debt related to street construction that is paid by a Special Assessment on Hills and Dales Hospital. Finally there is debt reported from the lease of police vehicles. The Village has leased police vehicles since 1998 in an effort to save money. All debt is

reported as a liability on the statement of net assets in this document.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Village of Cass City's budget for next year is slightly decreased due to Headlee Amendment. Because of the impact of Proposal A, and the minimal increase in taxable value, this increase will be minimal. However, the Village needs to continue to monitor its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or five (5) percent. Because some properties increased by less than inflation, the mathematical result of this is that the total taxable value for the Village will grow less than inflation, before considering new property additions. State revenue-sharing payments were decreased again this past year with the potential to decrease again due to State cutbacks and less sales tax receipts at the State level.

The Village will need to address reductions in revenues to sustain a healthy budget. Commercial and residential development will help the Village maintain a healthy budget. The Village has encouraged economic development as well as residential development and will continue to in the future.

CONTACTING THE VILLAGE OF CASS CITY'S MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village of Cass City's finances and to show the Village's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Village Manager, 6506 Main St., Cass City, MI 48726, (989) 872-2911 or via email at villagemanager@cass-city.net.

BASIC FINANCIAL STATEMENTS

Village of Cass City
Statement of Net Assets
December 31, 2004

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 927,905	\$ 109,194	\$ 1,037,099
Receivables	219,678	118,567	338,245
Accrued interest	1,796	-	1,796
Prepaid expense	903	-	903
Internal balances	98,740	(98,740)	-
Due from other governmental units	40,316	-	40,316
Capital assets (net)	<u>1,696,287</u>	<u>3,217,573</u>	<u>4,913,860</u>
Total assets	<u>2,985,625</u>	<u>3,346,594</u>	<u>6,332,219</u>
Liabilities			
Accounts payable	27,446	19,911	47,357
Accrued payroll and other liabilities	27,463	5,420	32,883
Accrued interest	1,440	-	1,440
Customer deposits	1,390	7,275	8,665
Noncurrent liabilities			
Due within one year	33,159	26,790	59,949
Due in more than one year	<u>151,774</u>	<u>323,378</u>	<u>475,152</u>
Total liabilities	<u>242,672</u>	<u>382,774</u>	<u>625,446</u>
Net Assets			
Invested in capital assets, net of related debt	1,511,354	2,867,405	4,378,759
Restricted streets and highways	472,923	-	472,923
Restricted for special levied taxes	16,339	-	16,339
Unrestricted	<u>742,337</u>	<u>96,415</u>	<u>838,752</u>
Total net assets	<u>\$ 2,742,953</u>	<u>\$ 2,963,820</u>	<u>\$ 5,706,773</u>

See Accompanying Notes to Financial Statements

Village of Cass City
Statement of Activities
Year Ended December 31, 2004

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Primary government						
Governmental activities						
Legislative	\$ 109,310	\$ -	\$ -	\$ (109,310)	\$ -	\$ (109,310)
General government	326,031	200,656	11,441	(113,934)	-	(113,934)
Public safety	382,692	-	-	(382,692)	-	(382,692)
Public works	561,528	15,905	-	(545,623)	-	(545,623)
Recreation and culture	250,409	-	-	(250,409)	-	(250,409)
Other	30,770	-	-	(30,770)	-	(30,770)
Depreciation	181,805	-	-	(181,805)	-	(181,805)
Interest on long-term debt	6,532	-	-	(6,532)	-	(6,532)
Total governmental activities	1,849,077	216,561	11,441	(1,621,075)	-	(1,621,075)
Business-type activities						
Sewer	595,652	503,045	-	-	(92,607)	(92,607)
Water	259,114	250,080	-	-	(9,034)	(9,034)
Total business-type activities	854,766	753,125	-	-	(101,641)	(101,641)
Total primary government	\$ 2,703,843	\$ 969,686	\$ 11,441	(1,621,075)	(101,641)	(1,722,716)
General revenues						
Property taxes, levied for general purposes				1,011,719	-	1,011,719
State shared revenue				561,098	-	561,098
Unrestricted investment earnings				21,444	608	22,052
Miscellaneous				76,210	2,726	78,936
Total general revenues and transfers				1,670,471	3,334	1,673,805
Change in net assets				49,396	(98,307)	(48,911)
Net assets - beginning				2,693,557	3,062,127	5,755,684
Net assets - ending				\$ 2,742,953	\$ 2,963,820	\$ 5,706,773

See Accompanying Notes to Financial Statements

**Village of Cass City
Balance Sheet
Governmental Funds
December 31, 2004**

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 316,195	\$ 325,949	\$ 115,957	\$ 22,099	\$ 780,200
Receivables					
Property taxes	9,184	-	-	-	9,184
Accounts	32,885	-	17,609	-	50,494
Special assessments	-	-	160,000	-	160,000
Due from other funds	99,752	-	-	-	99,752
Due from state	-	24,966	15,350	-	40,316
Prepaid expense	903	-	-	-	903
Total assets	<u>\$ 458,919</u>	<u>\$ 350,915</u>	<u>\$ 308,916</u>	<u>\$ 22,099</u>	<u>\$ 1,140,849</u>
Liabilities and Fund Balance					
Liabilities					
Accounts payable and accrued expenses	\$ 9,338	\$ 676	\$ 9,771	\$ 2,759	\$ 22,544
Accrued payroll	20,797	3,018	2,404	-	26,219
Deferred revenue	-	-	171,039	-	171,039
Customer deposits	1,390	-	-	-	1,390
Total liabilities	<u>31,525</u>	<u>3,694</u>	<u>183,214</u>	<u>2,759</u>	<u>221,192</u>
Fund balance					
Reserved for special levied taxes	16,339	-	-	-	16,339
Undesignated	411,055	347,221	125,702	19,340	903,318
Total fund balance	<u>427,394</u>	<u>347,221</u>	<u>125,702</u>	<u>19,340</u>	<u>919,657</u>
Total liabilities and fund balance	<u>\$ 458,919</u>	<u>\$ 350,915</u>	<u>\$ 308,916</u>	<u>\$ 22,099</u>	<u>\$ 1,140,849</u>

See Accompanying Notes to Financial Statements

Village of Cass City
Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Assets
December 31, 2004

Total fund balances for governmental funds		\$ 919,657
Total net assets reported for governmental activities in the statement of net assets is different because:		
Accrued interest receivable	\$ 1,796	
Deferred special assessments	<u>171,039</u>	172,835
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,554,643
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets.		
Balances as of December 31, 2004 are as follows:		
Special assessment debt	(165,000)	
Accrued interest payable	<u>(1,440)</u>	(166,440)
Internal service funds are used by management to charge the cost of equipment to individual funds. Certain assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.		<u>262,258</u>
Net assets of governmental activities		<u>\$ 2,742,953</u>

Village of Cass City
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2004

	General	Major Street	Local Street	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 719,700	\$ 189,721	\$ 368,100	\$ 35,876	\$ 1,313,397
State grant - public safety	1,354	-	-	-	1,354
State revenues	279,420	15,905	-	-	295,325
Charges for services rendered	121,406	-	-	-	121,406
Fines and forfeitures	5,944	-	-	-	5,944
Interest earnings	9,188	2,255	10,089	137	21,669
Contributions	10,087	-	-	-	10,087
Administration fee reimbursements	79,250	-	-	-	79,250
Miscellaneous and reimbursements	48,360	7,987	13,919	-	70,266
Total revenues	1,274,709	215,868	392,108	36,013	1,918,698
Expenditures					
Legislative	109,794	-	-	-	109,794
General government	326,031	-	-	-	326,031
Public safety	385,647	-	-	-	385,647
Public works	183,744	157,011	352,012	-	692,767
Recreation and culture	265,844	-	-	-	265,844
Miscellaneous	-	-	-	30,770	30,770
Total expenditures	1,271,060	157,011	352,012	30,770	1,810,853
Excess of revenues over expenditures	3,649	58,857	40,096	5,243	1,810,853
Other financing sources (uses)					
Bond principal	-	-	(20,000)	-	(20,000)
Bond interest	-	-	(6,707)	-	(6,707)
Total other financing sources (uses)	-	-	(26,707)	-	(26,707)
Excess of revenues and other financing sources over expenditures and other uses	3,649	58,857	13,389	5,243	81,138
Fund balance, beginning of year	423,745	288,364	112,313	14,097	838,519
Fund balance, end of year	\$ 427,394	\$ 347,221	\$ 125,702	\$ 19,340	\$ 919,657

See Accompanying Notes to Financial Statements

Village of Cass City
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
Year Ended December 31, 2004

	Primary Government
Net change in fund balances - total governmental funds	\$ 81,138
Total change in net assets reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	\$ (181,805)
Capital outlay	<u>130,415</u> (51,390)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Special assessments	(20,000)
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Repayments of long-term debt	20,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in accrued interest receivable	(225)
Change in accrued interest payable	<u>175</u> (50)
Internal service funds are used by management to charge the cost of equipment to individual funds. Certain net revenue (expense) of internal service funds are included in governmental activities in the statement of activities	<u>19,698</u>
Change in net assets of governmental activities	\$ <u>49,396</u>

**Village of Cass City
Statement of Net Assets
Proprietary Fund
December 31, 2004**

	Business-type Activities - Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 92,964	\$ 16,230	\$ 109,194	\$ 147,705
Due from other funds	9,550	-	9,550	-
Accounts receivable	79,589	38,978	118,567	-
Total current assets	182,103	55,208	237,311	147,705
Property and equipment				
Property, plant and equipment	7,018,359	1,004,062	8,022,421	738,888
Less: accumulated depreciation	4,378,595	426,253	4,804,848	597,244
Net property and equipment	2,639,764	577,809	3,217,573	141,644
Total assets	\$ 2,821,867	\$ 633,017	\$ 3,454,884	\$ 289,349
Liabilities				
Current liabilities				
Current portion of long term liabilities	\$ -	\$ 26,790	\$ 26,790	\$ 13,159
Due to other funds	-	109,302	109,302	-
Accounts payable and accrued expenses	16,439	3,472	19,911	4,902
Accrued payroll	3,945	1,475	5,420	1,244
Deposits payable	3,030	4,245	7,275	-
Total current liabilities	23,414	145,284	168,698	19,305
Long term liabilities				
Notes, loans and lease payable	-	323,378	323,378	6,774
Total liabilities	23,414	468,662.00	492,076	26,079.00
Net assets				
Invested in capital assets, net of related debt	2,639,764	227,641	2,867,405	-
Net assets	158,689	(63,286)	95,403	263,270
Total net assets	2,798,453	164,355	2,962,808	263,270
Total	\$ 2,821,867	\$ 633,017		\$ 289,349
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities				1,012
Net assets of business-type activities				\$ 2,963,820

See Accompanying Notes to Financial Statements

Village of Cass City
Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended December 31, 2004

	Business-type Activities - Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Operating revenues				
Charges for services	\$ 503,045	\$ 250,080	\$ 753,125	\$ 194,641
Operating expenses				
Personal services	274,961	72,559	347,520	34,155
Administration fees	15,250	15,250	30,500	28,250
Contractual services	21,536	23,258	44,794	-
Operating supplies	28,291	6,183	34,474	35,046
Chemicals	10,666	10,508	21,174	-
Utilities	63,389	13,611	77,000	-
Equipment rental	14,772	8,849	23,621	-
Repair and maintenance	-	43,687	43,687	31,162
Miscellaneous	9,864	2,253	12,117	-
Depreciation	157,550	46,955	204,505	52,469
Total operating expenses	596,279	243,113	839,392	181,082
Operating income (loss)	(93,234)	6,967	(86,267)	13,559
Nonoperating revenues (expenses)				
Other	-	2,726	2,726	7,694
Interest income	507	101	608	864
Interest expense	-	(16,386)	(16,386)	(1,407)
Total nonoperating revenues (expenses)	507	(13,559)	(13,052)	7,151
Change in net assets	(92,727)	(6,592)	(99,319)	20,710
Net assets, beginning of year	2,891,180	170,947	3,062,127	242,560
Net assets, end of year	\$ 2,798,453	\$ 164,355	2,962,808	\$ 263,270
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities.			1,012	
Change in net asset of business-type activities			\$ 2,963,820	

Village of Cass City
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2004

	Business-type Activities - Enterprise Funds			Internal Service Fund
	Sewer	Water	Total	
Cash flows from operating activities				
Receipts from customers	\$ 491,711	\$ 250,997	\$ 742,708	\$ 194,641
Payments to suppliers	(219,089)	(132,392)	(351,481)	(74,760)
Payments to employees	(202,841)	(51,364)	(254,205)	(23,379)
Internal activity - payments to other funds	(24,800)	(4,290)	(29,090)	(28,250)
Other receipts (payments)	529	(7,547)	(7,018)	-
Net cash provided by operating activities	45,510	55,404	100,914	68,252
Cash flows from capital and related financing activities				
Principal and interest paid on capital debt	-	(42,001)	(42,001)	(21,906)
Proceeds from sales of assets	-	2,726	2,726	7,694
Acquisition of property and equipment	(15,800)	-	(15,800)	(21,187)
Net cash used by capital and related financing activities	(15,800)	(39,275)	(55,075)	(35,399)
Cash flows from investing activities				
Interest revenue	507	101	608	864
Net increase (decrease) in cash	30,217	16,230	46,447	33,717
Cash, beginning of year	62,747	-	62,747	113,988
Cash, end of year	\$ 92,964	\$ 16,230	\$ 109,194	\$ 147,705
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	\$ (93,234)	\$ 6,967	\$ (86,267)	\$ 13,559
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation expense	157,550	46,955	204,505	52,469
Change in assets and liabilities				
Receivables	(11,334)	917	(10,417)	-
Due from other funds	(9,550)	-	(9,550)	-
Accounts payable	4,828	(3,826)	1,002	1,946
Accrued payroll	(3,279)	978	(2,301)	278
Deposits payable	529	(7,547)	(7,018)	-
Due to other funds	-	10,960	10,960	-
	\$ 45,510	\$ 55,404	\$ 100,914	\$ 68,252

See Accompanying Notes to Financial Statements

Village of Cass City
Notes to Financial Statements
December 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Cass City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village:

Government-wide and fund financial statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, normally supported by taxes and inter-governmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the major enterprise funds are reported in separate columns in the fund financial statements.

Reporting entity

The Village of Cass City is governed by an elected seven member council. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue, and charges for services.

Village of Cass City
Notes to Financial Statements
December 31, 2004

Sales taxes collected and held by the State at year end on behalf of the government also are recognized as revenue. Fines and permits revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The Village reports the following Major Governmental Funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major and Local Street Funds account for the resources of state gas and weight tax revenue that are restricted for use on Major and Local Streets.

The Village reports the following Major Proprietary Funds:

- The Sewer Fund accounts for the cost of collection and treating waste waters.
- The Water Fund accounts for the costs of providing water services to Village residents.

Additionally, the Village reports the following:

Internal Service Funds – This fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the Village on a cost reimbursement basis.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer

function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds, relate to charges to customers for water sales and services and sewage disposal. The Water and Sewer Fund also recognizes connection fees intended to recover the cost of the infrastructure. Operating expenses for proprietary funds include the cost of water, sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property tax revenue

Property taxes are levied on each January 1 on the taxable valuation of property as of the preceding December 31 and become a lien in May of the following year. These taxes are due on September 1 with the final collection date of October 1 before they are added to the County tax rolls.

Village of Cass City
Notes to Financial Statements
December 31, 2004

Assets, liabilities and net assets or equity

Cash and investments – The Village has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Additionally, each fund's equity in the Village's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty. Shared pooled investment income is allocated to each fund based on its percentage of the balance in the pool.

Receivables and payable – In general, outstanding balances between funds are reported as "due to/from other fund." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Village began recording governmental infrastructure constructed on or after January 1, 2004 as allowed by GASB 34.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives.

Land improvements	10 to 20 years
Building and building improvements	10 to 40 years
Utility systems	10 to 40 years
Roads	10 years
Other infrastructure	10 to 40 years
Vehicles	5 to 10 years
Heavy duty equipment	10 to 40 years
Machinery and equipment	5 to 10 years

Compensated absences – Exchange time is defined as those hours that the employee can take as paid time off in lieu of overtime pay. The maximum number of hours that can be held in a bank at any one time during a fiscal year is forty. Exchange time can be carried over into the next fiscal year and must be used during the first three months of the new fiscal year. Any unused hours as of March 31st of the new fiscal year will be paid to the employee at the rate of pay in effect the prior fiscal year.

Long-term obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Village of Cass City
Notes to Financial Statements
December 31, 2004

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative data

Comparative data is not included in the Village's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund deficit

The Village has accumulated a net assets deficit in the Water Fund. The deficit is a result of rising costs and will be recovered through fees.

Excess of expenditures over appropriations

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund			
General government	\$ 298,050	\$ 326,031	\$ 27,981
Recreation and culture	262,216	265,844	3,628
Major Street Fund			
Public works	107,252	157,011	49,759

and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The governing body has designated two banks for deposit of local unit funds. The investment policy adopted by the Council authorized all of the investments allowable under Michigan law.

The Village of Cass City deposits and investment policy are in accordance with statutory authority.

At year end, the Village's deposits and investment were reported in the basic financial statements in the following categories:

	<u>Cash and Cash Equivalents</u>
Governmental activities	\$ 927,905
Business-type activities	109,194
Total	<u>\$ 1,037,099</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91 authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities

Village of Cass City
Notes to Financial Statements
December 31, 2004

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank deposits (checking and savings accounts, certificates of deposit)	\$ 1,036,349
Petty cash and cash on hand	<u>750</u>
Total	<u>\$ 1,037,099</u>

Deposits

At year end, the carrying amount of the Village's deposits with financial institutions was \$1,036,349 and the bank balance was \$1,059,078. Of the bank balance, \$200,000 was covered by federal depository insurance and \$859,078 was uninsured and uncollateralized.

Investments

Village investments can be classified into three categories to give an indication of the level of risk assumed by the Village. Category 1 includes investments that are insured or registered or for which the securities are held by the Village or its agency in the Village's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agency in the Village's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Village's name.

There were no investments held at year end.

NOTE 4 - RECEIVABLES

Receivables as of year end for the government's individual major and nonmajor funds, and the internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Taxes receivable	\$ 9,184	\$ -	\$ -	\$ -	\$ -	\$ 9,184
Accounts	32,885	-	17,609	79,589	-	130,083
Special assessments	-	-	160,000	-	38,978	198,978
Intergovernmental	-	24,966	15,350	-	-	40,316
Gross receivables	<u>\$ 42,069</u>	<u>\$ 24,966</u>	<u>\$ 192,959</u>	<u>\$ 79,589</u>	<u>\$ 38,978</u>	<u>\$ 378,561</u>
Due within one year	\$ 42,069	\$ 24,966	\$ 52,959	\$ 79,589	\$ 38,978	\$ 238,561
Due after one year	-	-	140,000	-	-	140,000
	<u>\$ 42,069</u>	<u>\$ 24,966</u>	<u>\$ 192,959</u>	<u>\$ 79,589</u>	<u>\$ 38,978</u>	<u>\$ 378,561</u>

The allowance for all receivables at year end is zero, because all is expected to be collected.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Special assessments not yet due	<u>\$ 171,039</u>

Village of Cass City
Notes to Financial Statements
December 31, 2004

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Due to/from other funds

Receivable	Payable	Amount	Purpose
General	Water	\$ 99,752	Reimbursement of expenditures paid for by the General Fund
Sewer	Water	9,550	Reimbursement of expenditures paid for by the Sewer Fund
		<u>\$ 109,302</u>	

NOTE 6 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 644,400	\$ 10,805	\$ -	\$ 655,205
Capital assets being depreciated				
Buildings	703,625	-	-	703,625
Improvements other than buildings	294,631	15,615	-	310,246
Machinery and equipment	697,356	41,532	-	738,888
Roads and sidewalks	5,940,921	103,997	-	6,044,918
Capital assets being depreciated	<u>7,636,533</u>	<u>161,144</u>	<u>-</u>	<u>7,797,677</u>
Less accumulated depreciation for				
Buildings	484,247	22,113	-	506,360
Improvements other than buildings	197,892	14,141	-	212,033
Machinery and equipment	544,775	52,469	-	597,244
Roads and sidewalks	<u>5,295,407</u>	<u>145,551</u>	<u>-</u>	<u>5,440,958</u>
Accumulated depreciation	<u>6,522,321</u>	<u>234,274</u>	<u>-</u>	<u>6,756,595</u>
Net capital assets being depreciated	<u>1,114,212</u>	<u>(73,130)</u>	<u>-</u>	<u>1,041,082</u>
Governmental activities capital assets, net	<u>\$ 1,758,612</u>	<u>\$ (62,325)</u>	<u>\$ -</u>	<u>\$ 1,696,287</u>

	beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets being depreciated				
Plant	3,085,821	15,800	-	3,101,621
Machinery and equipment	150,023	-	-	150,023
Distribution and collection systems	<u>4,770,777</u>	<u>-</u>	<u>-</u>	<u>4,770,777</u>
Capital assets being depreciated	<u>8,006,621</u>	<u>15,800</u>	<u>-</u>	<u>8,022,421</u>
Less accumulated depreciation for				
Plant	1,478,290	69,103	-	1,547,393
Machinery and equipment	129,534	7,057	-	136,591
Distribution and collection systems	<u>2,992,520</u>	<u>128,344</u>	<u>-</u>	<u>3,120,864</u>
Accumulated depreciation	<u>4,600,344</u>	<u>204,504</u>	<u>-</u>	<u>4,804,848</u>
Business-type capital assets, net	<u>\$ 3,406,277</u>	<u>\$ (188,704)</u>	<u>\$ -</u>	<u>\$ 3,217,573</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities

Unallocated governmental activities depreciation	\$ 181,805
Internal service fund depreciation is charged to the various functions based on usage of the assets	<u>52,469</u>
Total governmental activities	<u>\$ 234,274</u>

Business-type activities

Water	\$ 46,954
Sewer	<u>157,550</u>
Total business-type activities	<u>\$ 204,504</u>

The Village determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Village of Cass City
Notes to Financial Statements
December 31, 2004

NOTE 7 - LONG-TERM DEBT

Installment purchase agreements are general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Village is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the Village) are received.

Long-term obligation activity is summarized as follows:

	Maturity Dates	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities								
Special assessment bonds	10/1/13	3.49%	\$15,000	\$ 185,000	\$ -	\$ 20,000	\$ 165,000	\$ 20,000
Capitalized lease - vehicle	2/14/05	7.25%	\$6,000 - \$7,000	13,067	-	6,305	6,762	6,762
Capitalized lease - vehicle	2/9/06	5.90%	\$6,000 - \$7,000	-	20,345	7,174	13,171	6,397
Capitalized lease - vehicle	2/26/04	6.55%	\$6,000 - \$7,000	7,020	-	7,020	-	-
				<u>\$ 205,087</u>	<u>\$ 20,345</u>	<u>\$ 40,499</u>	<u>\$ 184,933</u>	<u>\$ 33,159</u>
Business-type activities								
Installment loan	5/31/06	4.50%	\$25,000 - \$258,000	\$ 375,782	\$ -	\$ 25,614	\$ 350,168	\$ 26,790

Village of Cass City
Notes to Financial Statements
December 31, 2004

Annual debt service requirements to maturity for the above bond obligations are as follows:

Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 33,159	\$ 7,025	\$ 26,790	\$ 15,210
2006	26,774	5,460	28,021	13,979
2007	20,000	4,362	29,309	12,691
2008	20,000	3,664	266,048	5,845
2009	20,000	2,966	-	-
2010-2014	65,000	4,710	-	-
Total	<u>\$ 184,933</u>	<u>\$ 28,187</u>	<u>\$ 350,168</u>	<u>\$ 47,725</u>

Capital leases

The government has entered into lease agreements as lessee for financing the purchase of two vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

Year Ended June 30	
2005	\$ 14,427
2006	<u>7,174</u>
Total minimum lease payments	21,601
Less: amount representing interest	<u>1,668</u>
Present value	<u>\$ 19,933</u>

The assets acquired through capital lease are as follows:

Asset:	
Machinery and equipment	\$ 40,665
Less: accumulated depreciation	<u>(19,199)</u>
Total	<u>\$ 21,466</u>

NOTE 8 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for workers' compensation claims and claims related to property, general liability, and automobile.

The possibility of additional claims exists but, the amount of liability to the Village would be immaterial by the time the aggregate stop loss coverage's are triggered. There is also a possibility of a refund due to the Village. Therefore, no contingent liabilities or assets have been recognized on the Village's financial statements for the year ended December 31, 2004.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

The Village has established a money purchase retirement plan. The Village contributed \$73,412 to the plan for the year ended December 31, 2004, which was 10% of gross base wages. Additionally, the employees contributed \$29,354 to the plan, which is a mandatory 4% match.

The Village also has a section 457 retirement trust plan to which the employees may contribute. For the fiscal year ended December 31, 2004, employees had contributed \$31,190.

Village of Cass City
Notes to Financial Statements
December 31, 2004

NOTE 10 - ACCOUNTING AND REPORTING CHANGE

GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*. The Village of Cass City has applied the provisions of this statement and related GASB statements in the accompanying financial statements (including the notes to financial statements). The Village has elected to implement both the general provisions of the statement and the prospective reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Village's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds.
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the Village as well as assets totaling approximately \$7,817,989.
- Capital assets at January 1, 2004 have been adjusted by approximately \$5,977,546 to reflect the historical cost and accumulated depreciation of the Village's capital assets at that date.
- The governmental activities column includes bonds and other long-term obligations totaling \$165,000 previously reported in the General Long-Term Debt Account Group.

REQUIRED SUPPLEMENTAL INFORMATION

Village of Cass City
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
Year Ended December 31, 2004

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under)
				Final Budget
Revenues				
Taxes	\$ 711,727	\$ 711,727	\$ 719,700	\$ 7,973
State grant - public safety	1,000	1,000	1,354	354
State shared revenues	277,937	277,937	279,420	1,483
Charges for services rendered	120,050	120,050	121,406	1,356
Fines and forfeitures	6,900	6,900	5,944	(956)
Interest earnings	10,500	10,500	9,188	(1,312)
Contributions	3,500	3,500	10,087	6,587
Administration fee reimbursements	79,250	97,434	79,250	(18,184)
Miscellaneous and reimbursements	28,200	28,200	48,360	20,160
Total revenues	1,239,064	1,257,248	1,274,709	17,461
Expenditures				
Legislative	110,207	110,207	109,794	(413)
General government	291,266	298,050	326,031	27,981
Public safety	401,513	401,513	385,647	(15,866)
Public works	183,162	184,162	183,744	(418)
Recreation and culture	251,816	262,216	265,844	3,628
Total expenditures	1,237,964	1,256,148	1,271,060	14,912
Excess of revenues over expenditures	1,100	1,100	3,649	2,549
Fund balance, beginning of year	423,745	423,745	423,745	-
Fund balance, end of year	\$ 424,845	\$ 424,845	\$ 427,394	\$ 2,549

Village of Cass City
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
Year Ended December 31, 2004

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
Revenues				
Gas and weight tax	\$ 67,260	\$ 67,260	\$ 143,315	\$ 76,055
Trunkline maintenance	18,270	18,270	15,905	(2,365)
Property taxes	29,534	29,534	28,964	(570)
County bridge tax	19,250	19,250	17,442	(1,808)
Miscellaneous	3,772	3,772	7,987	4,215
Interest earnings	1,079	1,079	2,255	1,176
Total revenues	139,165	139,165	215,868	76,703
Expenditures				
Public works	107,252	107,252	157,011	49,759
Excess of revenues over expenditures	31,913	31,913	58,857	26,944
Fund balance, beginning of year	288,364	288,364	288,364	-
Fund balance, end of year	\$ 320,277	\$ 320,277	\$ 347,221	\$ 26,944

Village of Cass City
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
Year Ended December 31, 2004

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
Revenues				
Gas and weight tax	\$ 109,740	\$ 109,740	\$ 63,171	\$ (46,569)
Property taxes	225,486	225,486	227,179	1,693
County bridge tax	57,750	57,750	57,750	-
Special assessments	28,082	28,082	20,000	(8,082)
Miscellaneous	6,153	6,153	13,919	7,766
Interest earnings	1,079	1,079	10,089	9,010
Total revenues	428,290	428,290	392,108	(36,182)
Expenditures				
Public works	379,962	379,962	352,012	(27,950)
Excess of revenues over expenditures	48,328	48,328	40,096	(8,232)
Other financing sources (uses)				
Bond principal	(26,108)	(26,108)	(20,000)	(6,108)
Bond interest	-	-	(6,457)	6,457
Bond fees	-	-	(250)	250
Total other financing sources (uses)	(26,108)	(26,108)	(26,707)	599
Excess of revenues and other sources over expenditures and other uses	22,220	22,220	13,389	(8,831)
Fund balance, beginning of year	112,313	112,313	112,313	-
Fund balance, end of year	\$ 134,533	\$ 134,533	\$ 125,702	\$ (8,831)

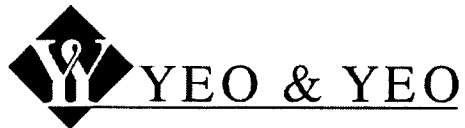
OTHER SUPPLEMENTAL INFORMATION

Village of Cass City
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2004

	<u>Economic Development Corporation</u>	<u>Downtown Development Authority</u>	<u>Total Nonmajor Governmental Funds</u>
Assets			
Cash	<u>\$ 405</u>	<u>\$ 21,694</u>	<u>\$ 22,099</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable and accrued expenses	\$ -	\$ 2,759	\$ 2,759
Fund balance	<u>405</u>	<u>18,935</u>	<u>19,340</u>
Total liabilities and fund balance	<u>\$ 405</u>	<u>\$ 21,694</u>	<u>\$ 22,099</u>

Village of Cass City
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended December 31, 2004

	Economic Development Corporation	Downtown Development Authority	Nonmajor Governmental Funds
Revenues			
Property taxes	\$ -	\$ 35,876	\$ 35,876
Interest earned	3	134	137
Total revenues	<u>3</u>	<u>36,010</u>	<u>36,013</u>
Expenditures			
Miscellaneous	-	30,770	30,770
Excess of revenues over expenditures	3	5,240	5,243
Fund balance, beginning of year	402	13,695	14,097
Fund balance, end of year	<u>\$ 405</u>	<u>\$ 18,935</u>	<u>\$ 19,340</u>



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**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards**

To the Village Manager
and Members of the Village Council
Cass City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Cass City as of and for the year ended December 31, 2004, which collectively comprise the Village's basic financial statements and have issued our report thereon dated February 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Cass City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Cass City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Village Council, management, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Marlette, Michigan
February 22, 2004



February 22, 2005

To the Village Council
Village of Cass City
Cass City, Michigan

In planning and performing our audit of the financial statements of the Village of Cass City for the year ended December 31, 2004, we considered the Village's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated February 22, 2005, on the financial statements of the Village of Cass City.

Cash Receipts

The risk of misappropriation of cash is minimal based on the controls currently in place. As stated last year, the exception to this would be during the summer with the swimming and recreation program. Due to the volume of small cash transactions and the lack of a control system to monitor those that use the pool, it is difficult to determine whether all monies are reaching the office for deposit. It is also difficult to know whether people are being allowed to use the pool without paying. A system needs to be developed to provide better control over this area.

Disbursement Procedures

It was noted in the Motor Vehicle Equipment Fund that all payments on the vehicle lease agreements were posted to capital outlay in error. The principal portion of the payment should be posted against the liability account for the lease and the interest portion posted to interest expense.

Accounts Receivable

Miscellaneous accounts receivable for all funds need to be reviewed near year end and any amounts that are believed to be uncollectible should be written off. It was noted that there are some immaterial amounts on your miscellaneous receivables list that date back beyond one year. We recommend that these items be reviewed and written off as considered necessary.

It was also noted in the Sewer Fund miscellaneous accounts receivable that there are a couple of customers who have a small credit balance. These amounts are considered immaterial however, we recommend that these items be reviewed and dealt with as considered necessary.

Accounts Payable

We recommend that an "outstanding invoice report" (with account distribution detail and sorted by fund) be printed at each month end and compared to the total in accounts payable in the general

ledger for each fund. The outstanding invoice report and the amounts in the general ledger should agree. If there is a discrepancy, the problem should be looked into and corrected immediately.

We will discuss the status of these comments during our next audit engagement. We have already discussed many of the comments and suggestions with various Village personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank the Village Manager and his staff for their support and assistance during our audit. It is with pride that we count the Village of Cass City as one of our clients.

This report is intended solely for the information and use of the Village Council, management and others within the Village and is not intended to be and should not be used by anyone other than these specified parties

Geo & Geo, P.C.

Marlette, Michigan

February 22, 2005